

## STAFF PAPER

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## IASB® meeting

<b>Project</b>	<b>Second Comprehensive Review of the <i>IFRS for SMEs</i>® Standard</b>	
<b>Paper topic</b>	Towards an Exposure Draft—IFRS 13 <i>Fair Value Measurement</i>	
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS® Standards or the *IFRS for SMEs*® Standard do not purport to set out acceptable or unacceptable application of IFRS Standards or the *IFRS for SMEs*® Standard. Technical decisions are made in public and reported in IASB® *Update*.

## Introduction

1. This paper discusses whether and how to propose amending the *IFRS for SMEs* Standard to align with IFRS 13 *Fair Value Measurement*.
2. In this paper, the term SMEs refers to small and medium-sized entities that are eligible to apply the *IFRS for SMEs* Standard.

## Purpose of the paper

3. The purpose of this paper is to ask the International Accounting Standards Board (Board) to:
  - (a) consider feedback on the Request for Information *Comprehensive Review of the IFRS for SMEs Standard*, published in January 2020, and the recommendations of the SME Implementation Group (SMEIG) on the alignment of the *IFRS for SMEs* Standard with IFRS 13; and
  - (b) decide whether and how to propose amendments to the *IFRS for SMEs* Standard to align the Standard with IFRS 13.

## Summary of staff recommendations

4. The staff recommend the Board propose amendments to the *IFRS for SMEs* Standard to:
- (a) align the definition of fair value in the *IFRS for SMEs* Standard with IFRS 13;
  - (b) align the guidance on fair value measurement in the *IFRS for SMEs* Standard with IFRS 13 so that the fair value hierarchy incorporates the principles of the fair value hierarchy set out in IFRS 13;
  - (c) include examples relevant to SMEs that illustrate how to apply the hierarchy; and
  - (d) move the guidance and related disclosure requirements for fair value to a new section of the *IFRS for SMEs* Standard.

## Structure of the paper

5. This paper is structured as follows:
- (a) background (paragraphs 7–17 of this paper);
  - (b) question in the Request for Information (paragraph 18 of this paper);
  - (c) overall feedback and staff analysis on applying the alignment principles to IFRS 13:
    - (i) methods for obtaining feedback and overall feedback (paragraphs 19–22 of this paper);
    - (ii) staff analysis applying the alignment principles (paragraphs 23–30 of this paper); and
    - (iii) costs and benefits consideration (paragraphs 31–36 of this paper);
  - (d) feedback, SMEIG recommendation and staff analysis on specific areas of IFRS 13:
    - (i) aligning the definition of fair value with IFRS 13 (paragraphs 37–45 of this paper);

- (ii) aligning the guidance on fair value measurement and including examples that illustrate how to apply the hierarchy (paragraphs 46–63 of this paper); and
  - (iii) moving the guidance and related disclosure requirements for fair value to Section 2 (paragraphs 64–82 of this paper);
  - (e) staff recommendations and question for the Board (paragraph 83 of this paper).
6. Appendix A to this paper sets out the Board’s rationale in the Request for Information for asking views on aligning the *IFRS for SMEs* Standard with IFRS 13.

## Background

### ***Requirements in the IFRS for SMEs Standard***

7. The *IFRS for SMEs* Standard:
- (a) requires or permits the use of fair value for example for: other financial instruments to which Section 12 applies, investment properties and jointly controlled entities;
  - (b) includes a definition of fair value in Section 2 *Concepts and Pervasive Principles*; and
  - (c) includes the fair value guidance in paragraphs 11.27–11.32, which is based on *IAS 39 Financial Instruments: Recognition and Measurement*.
8. Paragraph 11.27 of the *IFRS for SMEs* Standard establishes the following hierarchy for measuring the fair value of an asset:
- (a) the best evidence of fair value is a quoted price for an identical asset (or similar asset) in an active market;
  - (b) when quoted prices are not available, the price in a binding sale agreement or a recent transaction for an identical asset (or similar asset) in an arm’s length

transaction between knowledgeable, willing parties provides evidence of fair value;

- (c) if (a) and (b) are not available (or they are not a good estimate of fair value), an entity estimates the fair value by using a valuation technique.

9. The *IFRS for SMEs* Standard currently defines fair value as:

The amount for which an asset could be exchanged, a liability settled or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction.

10. In May 2011, the Board issued IFRS 13. IFRS 13 is a single source of fair value measurement guidance that clarifies the definition of fair value, provides a clear framework for measuring fair value and enhances the disclosures about fair value measurements.

11. IFRS 13 defines fair value as:

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.<sup>1</sup>

12. IFRS 13 establishes a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

- (a) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities the entity can access at the measurement date.
- (b) Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- (c) Level 3 inputs are unobservable inputs for the asset or liability (including the entity's own data, which are adjusted, if necessary, to reflect the assumptions market participants would use in the circumstances).

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<sup>1</sup> Paragraph 9 of IFRS 13.

13. The Board decided not to update the *IFRS for SMEs* Standard for IFRS 13 in the first comprehensive review because:
- ... IFRS 13 only recently became effective [then] and [introduced] complex changes that are expected to result in, and benefit from, significant implementation guidance in practice. Furthermore, [it] would be expected to have a limited practical impact on the majority of SMEs, because the new requirements are unlikely to affect many common fair value measurements ...<sup>2</sup>
14. The scope of the second comprehensive review includes IFRS Standards and IFRIC Interpretations issued before the first comprehensive review, but that did not result in amendments to the Standard (the specific reasons for not aligning for IFRS 13 in the first comprehensive review are set out in paragraph 13 of this paper). IFRS 13 is within the scope of the second comprehensive review. At its March 2021 meeting, the Board tentatively decided to confirm the scope of the review is as set out in the Request for Information. Consequently, this review re-examines aligning the *IFRS for SMEs* Standard with IFRS 13.
15. The Board completed the Post-implementation Review of IFRS 13 in March 2018, and it concluded that IFRS 13 was working as intended. The feedback statement of the Post-implementation Review stated that information required by IFRS 13 is useful to users of financial statements and no unexpected costs have arisen from application of IFRS 13. The findings from the Post-implementation Review of IFRS 13 provide evidence for aligning the *IFRS for SMEs* Standard with IFRS 13 subject to the Board’s alignment approach.

### ***Request for Information***

16. The Request for Information sought views on aligning the *IFRS for SMEs* Standard with IFRS 13. The Board’s rationale for seeking views on aligning the *IFRS for SMEs* Standard with IFRS 13 is set out in paragraphs B79–B83 of the Request for Information and reproduced in Appendix A to this paper.

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<sup>2</sup> Paragraph BC198(a) of the Basis for Conclusions on the *IFRS for SMEs* Standard.

17. The Request for Information stated:

The Board is of the view that aligning both the definition of fair value and the fair value hierarchy in the *IFRS for SMEs* Standard with IFRS 13 would lead to greater consistency in the measurement of fair value, thereby improving the information provided to users of financial statements prepared applying the *IFRS for SMEs* Standard.

### Question in the Request for Information

18. Question S9 of the Request for Information asked for views on:

- (a) aligning the definition of fair value in the *IFRS for SMEs* Standard with IFRS 13;
- (b) aligning the guidance on fair value measurement in the *IFRS for SMEs* Standard with IFRS 13 so the fair value hierarchy incorporates the principles of the fair value hierarchy set out in IFRS 13;
- (c) including examples that illustrate how to apply the hierarchy; and
- (d) moving the guidance and related disclosure requirements to Section 2 of the *IFRS for SMEs* Standard.

### Overall feedback and staff analysis

#### *Methods for obtaining feedback*

19. Feedback on Question S9 of the Request for Information was gathered in several ways, including:

- (a) comment letters;
- (b) an online survey; and
- (c) outreach events.

20. The SMEIG met on 4–5 February 2021 to discuss the feedback on the Request for Information and develop recommendations to enable the Board to decide on whether and if so, how to align the *IFRS for SMEs* Standard with IFRS 13.

### **Overall feedback**

21. Overall feedback on the Request for Information supported the first three elements discussed in the Request for information:
- (a) aligning the definition of fair value in the *IFRS for SMEs* Standard with IFRS 13;
  - (b) aligning the guidance on fair value measurement in the *IFRS for SMEs* Standard with the principles of the fair value hierarchy set out in IFRS 13; and
  - (c) including examples that illustrate how to apply the hierarchy.
22. Respondents expressed mixed views about moving the guidance and related disclosure requirements to Section 2 of the *IFRS for SMEs* Standard.

### **Staff analysis applying the alignment principles**

23. This section provides analysis on applying the alignment principles to IFRS 13 on an overall basis. Detailed feedback and analysis of specific areas of IFRS 13 are set out in paragraph 37–81 of this paper.
24. As mentioned in Agenda Paper 30 of the October 2021 meeting, the staff apply the principles of relevance to SMEs, simplicity and faithful representation, including the assessment of costs and benefits, in determining whether and how that alignment of IFRS 13 should take place.

#### ***Relevance to SMEs***

25. As discussed in paragraph 33 of the Request for Information, relevance to SMEs is determined by assessing whether the problem addressed by an IFRS Standard, an amendment to an IFRS Standard or an IFRIC Interpretation would make a difference

in the decisions of users of financial statements prepared applying the *IFRS for SMEs* Standard.

26. As discussed in paragraph 7 of this paper, some sections of the *IFRS for SMEs* Standard already require or permit entities to measure some assets at fair value, so the subject of fair value measurement and disclosure requirements is relevant to SMEs.

### *Simplicity*

27. The staff think that further simplifying the definition of the fair value and the fair value hierarchy might create confusion to users and therefore not improve faithful representation.
28. The Exposure Draft *Subsidiaries without Public Accountability: Disclosures* published in July 2021 includes a proposal to simplify the disclosure requirements on fair value measurement.<sup>3</sup> The staff would consider the stakeholders' feedback on the Exposure Draft when aligning the *IFRS for SMEs* Standard with IFRS 13 disclosure requirements.

### *Faithful representation*

29. The principle of faithful representation is intended to help the Board assess whether financial statements prepared applying the *IFRS for SMEs* Standard would faithfully represent the substance of the economic phenomena they purport to represent.
30. Alignment could clarify the definition of fair value and related guidance to communicate the measurement objective more clearly.

### **Cost and benefit consideration**

31. The staff acknowledge that implementing the possible amendments to the *IFRS for SMEs* Standard to align with IFRS 13 may add some incremental costs in reviewing

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<sup>3</sup> Paragraphs 79–83 of the Exposure Draft *Subsidiaries without Public Accountability: Disclosures*.

existing processes against the new requirements in the *IFRS for SMEs* Standard and possibly in preparing enhanced disclosures.

32. Those incremental costs are not expected to be significant because IFRS 13 does not introduce new requirements to measure assets and liabilities at fair value, and the definition of fair value and the guidance on fair value measurement in IFRS 13 builds on the framework for the implicit three-level fair value measurement hierarchy in IAS 39. The possible amendments to the *IFRS for SMEs* Standard to align with IFRS 13:
  - (a) would similarly not scope more items into fair value measurement; and
  - (b) instead would be expected to provide extra clarification and improved guidance which should not in itself give rise to additional costs.
  
33. In the Project Report and Feedback Statement of the Post-implementation Review of IFRS 13, the Board concluded that some areas of IFRS 13 present implementation challenges, largely in areas requiring judgement. The preparers of the SME financial statements might have similar implementation challenges. However, evidence also suggests that practice is developing to resolve the implementation challenges under IFRS 13, and SMEs may be able to learn from the practical experiences of preparers that have completed the process of IFRS 13 implementation. Also, the Post-implementation Review did not highlight any unexpected costs that have arisen from application of IFRS 13. Therefore, the staff believe that aligning the definitions and guidance relating to fair value in the *IFRS for SMEs* Standard with IFRS 13 would not create significant implementation cost for preparers of SME financial statements.
  
34. Regarding the benefits of any amendments to the *IFRS for SMEs* Standard to align with IFRS 13, the staff think that updating the fair value definition will articulate clear measurements and disclosure objectives. Because fair value is a pervasive concept in the *IFRS for SMEs* Standard, an SME applying the *IFRS for SMEs* Standard could gain benefit from the clearer definition and remove the need to seek external clarification.
  
35. The staff think that aligning the guidance on fair value measurement in the *IFRS for SMEs* Standard with IFRS 13, including examples that illustrate how to apply the

hierarchy, will provide a clear framework for measuring fair value and will address the valuation uncertainty in markets that are no longer active. It would also increase consistency in application of fair value measurement requirements, enhanced comparability of fair value information, and improved communication of that information to users of SME financial statements.

36. The staff therefore conclude that the benefits of alignment will outweigh any increased costs of applying the requirements.

### **Aligning the definition of fair value with IFRS 13**

#### ***Feedback and SMEIG recommendation***

##### *Feedback from comment letters*

37. Most respondents supported aligning the *IFRS for SMEs* Standard with the definition of fair value in IFRS 13. Reasons given for this support include:
- (a) the definition of fair value is an important definition; and
  - (b) alignment will provide clarity and understandability for users of the *IFRS for SMEs* Standard and comparability of financial statements among SMEs.
38. For example, the Accounting Standards Council Singapore said:
- ...We consider the definition of fair value in IFRS 13 to be an improvement. That definition makes it clear that fair value is an exit price, from the perspective of market participants, and at the measurement date. The clarification would improve application consistency and the quality of fair value information reported in the financial statements.
39. A small number of respondents expressed reservations about aligning the definition of fair value. These respondents said some aspects of the definition may be challenging for SMEs to implement, such as the determination of the principal or most advantageous market. These respondents suggested the Board considers including

further examples within the *IFRS for SMEs* Standard illustrating the application of the definition.

*Feedback from online survey and outreach*

40. Many respondents to the online survey and participants in outreach events also supported aligning the definition of fair value with IFRS 13.
41. One respondent to the online survey noted support for alignment to minimise divergence with full IFRS Standards. One respondent also suggested simplifying the definition of fair value.

*SMEIG recommendation*

42. Most SMEIG members supported the staff preliminary thoughts that the Board should propose updating the requirements to align with the definition of fair value with IFRS 13.

**Staff analysis**

*Relevance to SMEs*

43. The staff think that aligning the definition of fair value will be an improvement that brings benefit to users and preparers of financial statements prepared applying the *IFRS for SMEs* Standard because the definition of fair value in IFRS 13:
  - (a) includes clarity for the following:
    - (i) whether an entity is buying or selling the asset;
    - (ii) what is meant by settling a liability because it does not refer to the creditor, but to knowledgeable, willing parties; and
    - (iii) whether the exchange or settlement takes place at the measurement date or at some other date.
  - (b) conveys more clearly that the fair value is a market-based measurement; and

- (c) ensures that the term ‘fair value’ has the same meaning in full IFRS Standards and in the *IFRS for SMEs* Standard, thereby enhancing the comparability of fair value information reported and improving communication of that information to users of financial statements.

### *Simplicity and faithful representation*

- 44. As discussed in paragraph 43 of this paper, IFRS 13 provides a clearer and more comprehensive definition of fair value than is currently included in the *IFRS for SMEs* Standard and it is therefore simpler to apply as preparers are not left to devise their own understanding of the definition.
- 45. The staff believe the definition of fair value should be not simplified because:
  - (a) this would lead to a different definition in the *IFRS for SMEs* Standard compared to full IFRS Standards, which would be contrary to feedback on the Request for Information that supported alignment;
  - (b) IFRS 13 already clarified the concept of fair value; and
  - (c) any additional potential simplifications could, in the staff’s view, create confusion to users and therefore not improve faithful representation.

## **Aligning the guidance on fair value measurement and including examples that illustrate how to apply the hierarchy**

### ***Feedback and SMEIG recommendation***

#### *Feedback from comment letters*

- 46. Most respondents were in support of aligning the *IFRS for SMEs* Standard with the guidance on fair value in IFRS 13 and including examples on how to apply the fair value hierarchy. Respondents in support of the alignment said that inclusion of examples would be useful for entities applying the *IFRS for SMEs* Standard as it

would facilitate better understanding and application of the Standard. For example, the UK Financial Reporting Council said:

...The ‘ranking’ of inputs that the hierarchy establishes would help entities measure assets and liabilities using the most reliable information. We agree that this could achieve greater consistency in the measurement of fair value, as well as making the guidance easier to understand and apply.

47. Chartered Accountants Ireland suggested which topics could be covered by examples illustrating how to apply the hierarchy and said:

...[we] suggest that these examples include investment property, contingent consideration, derivatives, profit participating notes and equity interests in both listed and unlisted entities, all of which are quite common for entities within the scope of the [IFRS for SMEs] Standard.

48. Respondents who did not support the inclusion of examples in the *IFRS for SMEs* Standard said that the inclusion would result in an increase in the length of the Standard. For example, Ministry of Finance Armenia - Service for Accounting, Reporting and Auditing Supervision Georgia - Ministry of Finance Ukraine said:

...we worry that the IASB might be tempted to add too much fair value measurement guidance to the *IFRS for SMEs* Standard which is unnecessary to specify the application of such a clear principle (and, in any event, nothing prevents an SME from looking to IFRS 13 for such guidance if it wants to do so).

49. One respondent did not support aligning the *IFRS for SMEs* Standard with the guidance on fair value in IFRS 13 and including examples on how to apply the fair value hierarchy. In the view of this respondent, the hierarchy should be simplified into two levels, with a clear distinction between fair value that is a quoted price in an active market and estimates of fair value by using a valuation technique. In this suggestion there would be no level 2 and it can be argued that this would remove the

need for supporting examples as the distinctions between the two remaining levels would be clear.

*Feedback from online survey and outreach*

50. Many respondents to the online survey and participants in outreach events supported aligning guidance on fair value measurement in the *IFRS for SMEs* Standard with IFRS 13 and including examples that illustrate how to apply the hierarchy.
51. Respondents to the online survey provided reasons for supporting alignment including:
  - (a) alignment would minimise divergence and ensure comparability with full IFRS Standards; and
  - (b) examples would support consistent application of the *IFRS for SMEs* Standard.
52. One participant in outreach events suggested simplifying levels 2 and 3 of the fair value hierarchy or considering replacing levels 2 and 3 of the fair value hierarchy with cost.

*SMEIG recommendation*

53. Most SMEIG members supported the staff preliminary thoughts that the Board should propose:
  - (a) including the guidance on fair value measurement from IFRS 13; and
  - (b) including examples on how to apply the fair value hierarchy.

**Staff analysis**

*Relevance to SMEs*

54. As discussed in paragraph 46 of this paper, many respondents supported including guidance on the fair value hierarchy. The *IFRS for SMEs* Standard already makes

reference to observable market transactions or measuring fair value using a valuation technique, which is set out in Section 11 *Basic Financial Instruments* of the *IFRS for SMEs* Standard. The guidance in IFRS 13 is explicit and detailed. Aligning with the fair value guidance in IFRS 13 would involve specifying in more detail how an entity should measure fair value and should improve the quality of fair value measurements. It would communicate the measurement more clearly to users of financial statements prepared applying the *IFRS for SMEs* Standard than the current approach in Section 11.

55. Providing examples that illustrate how to apply the hierarchy would help those preparing SME financial statements to apply the Standard consistently and reduce potential misunderstandings about application.

*Simplicity: effects of aligning the guidance*

56. Aligning the fair value guidance in Section 11 of the *IFRS for SMEs* Standard with IFRS 13 would introduce an updated definition of fair value and would continue to include a fair value hierarchy that categorises into three levels the inputs to the valuation techniques that are used to measure fair value. It would not change existing requirements regarding when to measure assets at fair value.
57. As discussed in paragraphs 49 and 52 of this paper, a small number of respondents suggested the Board simplify the fair value hierarchy or consider replacing level 2 and level 3 of the fair value hierarchy with cost.
58. Those respondents may have concerns that some requirements in level 3 measurement are costly to implement. However, typical SMEs may not need to make many fair value measurements, particularly at level 3, because often there is a cost model required or permitted, or an undue cost or effort exemption. For example, an entity could choose either the cost model or the revaluation model as its accounting policy for property, plant and equipment. Also, the Standard requires investment property to be measured at fair value when fair value can be measured reliably without undue cost or effort.
59. Therefore, the staff do not think the fair value hierarchy in IFRS 13 should be simplified by replacing level 2 and level 3 of the fair value hierarchy with cost

because paragraph 11.27 of the *IFRS for SMEs* Standard already contains a simple fair value hierarchy. The alignment to IFRS 13 would serve to formalise and improve the fair value hierarchy in the *IFRS for SMEs* Standard by adding clarity and consistency.

60. In addition, if levels 2 and 3 of the fair value hierarchy were replaced with cost, this would result in loss of information in some cases, for instance where an entity holds derivative instruments where a valuation technique could be used. This loss of information could then impede faithful representation. Users of SME financial statements would not be provided with clear, comparable, and useful information about fair value.

*Simplicity: effects of including examples*

61. As discussed in paragraph 48 of this paper, some respondents expressed concerns about the increase in length of the *IFRS for SMEs* Standard if examples on applying the hierarchy are included in the Standard.
62. The staff consider that if the Board were to decide to align the guidance on fair value measurement in the *IFRS for SMEs* Standard with IFRS 13 so the fair value hierarchy incorporates the principles of the fair value hierarchy as set out in IFRS 13, it would only be necessary to include those examples from IFRS 13 that would be common to the broader group of entities applying the Standard and that will assist SME preparers.
63. Consequently, this would not increase the length of the Standard significantly and the burden of the extra length would be compensated for by the value from examples assisting consistent application. This is consistent with feedback from SME preparers from outreach meetings who have emphasised the need to keep the *IFRS for SMEs* Standard simple to avoid imposing burden on entities applying the Standard. Including enough guidance and examples within the *IFRS for SMEs* Standard also reduces the likelihood that preparers look to IFRS 13 to find sufficient information for their particular situation. If it was considered that further examples would be helpful, these could be added to the educational material rather than included in the *IFRS for SMEs* Standard itself.

*Faithful representation*

64. The feedback from the Request for Information provided support for the Board’s preliminary view that aligning the definition of fair value and the fair value hierarchy in the *IFRS for SMEs* Standard with IFRS 13 will enhance disclosure about fair value measurement that will help users of financial statements to assess the valuation techniques and inputs used to develop these measurements.

**Moving the guidance and related disclosure requirements for fair value to Section 2**

***Feedback and SMEIG recommendations***

*Feedback from comment letters*

65. In supporting the position on moving the guidance and related disclosure requirements for fair value to Section 2, many respondents were of the view that:
- (a) moving the requirements would emphasise the relevance of fair value across the *IFRS for SMEs* Standard; and
  - (b) Section 2 is the most logical location for the guidance and disclosure requirements to be placed, alongside the other key concepts and pervasive principles used in the *IFRS for SMEs* Standard.
66. In contrast, some respondents did not support moving the guidance and related disclosure requirements for fair value to Section 2.
67. Some of these respondents that did not support moving the guidance in Section 2 suggested that the requirements and guidance should instead be moved to a separate Section within the *IFRS for SMEs* Standard. For example, KPMG IFRG Limited said:
- ...fair value measurement is not a "pervasive principle", and therefore we do not believe that the guidance fits well in Section 2. We suggest that the Board consider including the fair value guidance in a separate Section, e.g. Section 2A, consistent with the full IFRS

Standards where IFRS 13 is a separate Standard.

68. Other respondents who did not support moving the guidance and related disclosure to Section 2 had similar suggestions:

...[we] question whether Section 2 is the appropriate section as fair value measurement is not a pervasive principle underlying the SMEs Standard, and also because Section 2 does not appear the appropriate section to incorporate disclosure requirements. [We] would instead propose that all guidance on fair value measurement and related disclosure requirements should be allocated its own section, perhaps Section 2A or Section 36. [Chartered Accountants Ireland]

...We consider it appropriate to create a new section that deals with issues related to fair value, using the same criteria established in IFRS 13, considering criteria of simplicity for its application in an SME. [Leonardo Varon Garcia]

...[we] suggest considering including the guidance as Section 2A rather than as part of Section 2 so that the guidance is contained in the one easy to find section. [David Hardidge]

...As fair value is not an item specific to SMEs, the guidance and related disclosures should be included in a separate standalone section in the Standard. [Ernst & Young Global Limited]

69. A small number of respondents suggested the Board move the guidance and related disclosure requirements to Section 8 *Notes to the Financial Statements* rather than Section 2. For example, these respondents said:

...[we believe it] more suitable to make references to Section 8 instead of the proposal to move the guidance and related disclosures to Section 2. [The Institute for the Accountancy Profession in Sweden]

...the IASB should consider putting the general requirements set out in Section 2 alongside the disclosures in Section 8 because our view is this is a more logical place to put it. [Grant Thornton International]

...Our view is that the guidance should be moved to Section 2 and the related disclosure requirements should be moved to Section 8.

[The Swedish Accounting Standards Board]

70. One respondent, whilst agreeing with moving the guidance on fair value measurement to Section 2, did not support the inclusion in Section 2 of general disclosures for all items measured at fair value. The respondent supported retaining topic-specific disclosure requirements within the relevant sections of the *IFRS for SMEs* Standard as this approach provides scope for these disclosures to be tailored to meet the information needs of users.

#### *Feedback from online survey and outreach events*

71. Many respondents to the online survey and participants in outreach events agreed with moving the guidance and related disclosure requirements to Section 2. Some of the respondents to the online survey that support moving the guidance to Section 2 said it would streamline the guidance and make it easier to understand.
72. In contrast, some participants in outreach events said it may not be appropriate to include the fair value guidance and disclosure requirements in Section 2 of the *IFRS for SMEs* Standard and suggested moving the fair value measurement and disclosure requirements to a new separate section in the *IFRS for SMEs* Standard (for instance as Section 36) or as a sub-section of Section 2 (numbered as Section 2A).

#### *SMEIG recommendations*

73. Most SMEIG members supported the staff preliminary thoughts that the Board should propose moving the guidance to Section 2 of the *IFRS for SMEs* Standard.
74. In contrast, some SMEIG members said it may not be appropriate to include the guidance and disclosure requirements relating to fair value alongside the concepts and principles in Section 2 of the *IFRS for SMEs* Standard. These members suggested that the requirements should be kept distinct and included either in a subsection of Section 2 (ie Section 2A), or in a new section.

### **Staff analysis**

75. As discussed in paragraphs 66–69 of this paper, some respondents expressed concerns about moving the guidance and disclosure requirements to Section 2.
76. The staff would like to spend further time considering the benefits of creating a new section on fair value at the end of the *IFRS for SMEs* Standard, after hearing the concern that this would not give the fair value measurement guidance the same prominence as would be achieved by placing it in or alongside Section 2. The parts of the *IFRS for SMEs* Standard that relate to broad application principles generally appear near the beginning of the Standard before the Standard moves on to topic-specific sections. Some interested parties have argued that including the fair value guidance as a late section would not be a logical place for stakeholders to locate fair value guidance and may appear to relegate the topic to a lesser status; others maintain that the order of the Sections does not indicate their relative importance.
77. The staff think that moving guidance to Section 2 while including related disclosure requirements separately in Section 8 of the Standard may cause confusion. The staff also think Section 8, which sets out the principles underlying information that is to be presented in the notes to the financial statements, is not a logical place for disclosure requirements for fair value.
78. The staff also considered the consequences of moving the fair value measurement and disclosure requirements to a subsection of Section 2 (ie Section 2A) or to an appendix of Section 2. Some sections of the *IFRS for SMEs* Standard already include appendices to provide guidance and examples to support application of the requirements in the Standard. For example, Section 21 *Provisions and Contingencies* of the Standard includes an Appendix—*Guidance on recognising and measuring provisions*.
79. The staff note that the UK Financial Reporting Council has moved the fair value guidance in FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (which is based on the *IFRS for SMEs* Standard) from Section 11 *Basic Financial Instruments* to an appendix to Section 2 *Concepts and Pervasive Principles*. This appendix is an integral part of Section 2 of FRS 102.

80. However, the existing appendices to the sections in the *IFRS for SMEs* Standard only provide examples and do not include requirements. Also, an appendix accompanies, but is not part of a, section, therefore it would not be mandatory to comply with. Therefore, the staff do not think moving the requirements to an appendix of Section 2 would be preferable.
81. The staff recommend that the Board move the guidance and disclosure requirements for fair value to a new section, with a deferred decision on whether to locate this new section after Section 2 or elsewhere in the Standard. The status of this new section will be the same as other Sections in the *IFRS for SMEs* Standard. Using a new section would emphasise the relevance of the fair value guidance across the *IFRS for SMEs* Standard, while leaving it sufficiently distinct. It will also solve stakeholders' concerns on the location of the disclosure requirements.
82. Drafting questions about how this new section would be located and numbered will be addressed in due course.

### **Staff recommendations and question for the Board**

83. In the light of the staff analysis in this paper, the staff recommend that the Board:
- (a) align the definition of fair value in the *IFRS for SMEs* Standard with IFRS 13;
  - (b) align the guidance on fair value measurement in the *IFRS for SMEs* Standard with IFRS 13 so that the fair value hierarchy incorporates the principles of the fair value hierarchy set out in IFRS 13;
  - (c) include examples relevant to SMEs that illustrate how to apply the hierarchy; and
  - (d) move the guidance and related disclosure requirements for fair value to a new section of the *IFRS for SMEs* Standard.

**Question for the Board**

Does the Board agree with the staff recommendations to develop amendments to the *IFRS for SMEs* Standard to:

- (a) align the definition of fair value in the *IFRS for SMEs* Standard with IFRS 13;
- (b) align the guidance on fair value measurement in the *IFRS for SMEs* Standard with IFRS 13 so that the fair value hierarchy incorporates the principles of the fair value hierarchy set out in IFRS 13;
- (c) include examples relevant to SMEs that illustrate how to apply the hierarchy;  
and
- (d) move the guidance and related disclosure requirements for fair value to a new section of the *IFRS for SMEs* Standard.

**Appendix A—Board rationale in the Request for Information on aligning the IFRS for SMEs Standard with IFRS 13**

- A1. Question S9 addresses the application of guidance on fair value measurement in multiple sections of the *IFRS for SMEs* Standard.
- A2. Multiple sections of the *IFRS for SMEs* Standard cross-refer to the fair value measurement guidance in Section 11 *Basic Financial Instruments* including, for example, Section 14 and Section 15 (regarding the fair value model for associates and jointly controlled entities), Section 16 (regarding investment property) and Section 28 (regarding the fair value of pension plan assets). Guidance on fair value measurement is set out elsewhere in the *IFRS for SMEs* Standard, for example, guidance on fair value less costs to sell in paragraph 27.14.
- A3. The Board is seeking views on aligning the *IFRS for SMEs* Standard with IFRS 13 *Fair Value Measurement*. The Board is of the view that aligning both the definition of fair value and the fair value hierarchy in the *IFRS for SMEs* Standard with IFRS 13 would lead to greater consistency in the measurement of fair value, thereby improving the information provided to users of financial statements prepared applying the *IFRS for SMEs* Standard.
- A4. The Board is seeking views on moving the guidance on fair value measurement to Section 2 *Concepts and Pervasive Principles* of the *IFRS for SMEs* Standard. Section 2 already identifies fair value as one of the ‘two common measurement bases’ and includes the definition of fair value. Moving the guidance on fair value measurement to this section would place it alongside other pervasive principles and emphasise its relevance across the *IFRS for SMEs* Standard.
- A5. The *IFRS for SMEs* Standard includes disclosure requirements in each section that require the use of fair value or directs an entity to the disclosure requirements in Section 11, specifically paragraphs 11.43–11.44. The Board is seeking views on moving these disclosure requirements to a single location in Section 2, alongside the guidance for fair value measurement.